

Refinance Your Debt

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The scenario: Too many financial obligations are tying up the balance sheet.

The tactic: Renegotiate debt terms or exchange debt for equity in order to conserve cash — or even grow.

Balance sheet restructuring can take many forms, but it usually means that companies renegotiate the terms of their debt or raise capital to pay it down. It's a common undertaking during bankruptcy filings, but when market conditions sour, any company that's struggling with a big debt load can do a preemptive restructuring to lower operating costs, conserve cash, and free itself up to focus on other aspects of business. The process almost always includes renegotiating debt terms or getting rid of debt (in exchange for equity, etc.), but it can also address lease terms, contracts for equipment rental, or other ongoing fixed costs.

Given the state of the banking industry, it's tougher to refinance debt right now — but it's not impossible. Steve Zuckerman, director of the special situations group at [Farlie, Turner & Co.](#) in Fort Lauderdale, Fla., says companies can arm themselves to prepare for lender difficulty by demonstrating that they are cash-flow positive. They can also make the case that if their loan terms aren't refinanced, the alternative — the need to make divestitures, or other dire steps — means the lender would stand to gain less. On the upside, Zuckerman says mid-sized companies (those with revenue in the \$25 million to \$350 million range) do have decent refinancing opportunities now. "There's more liquidity for mid-market businesses right now than for any other category," he says.

Restructuring isn't just a defensive tactic; it can also be a smart move for companies looking to grow in lean times. In October, Salt Lake City-based [Fonix Corporation](#), a software company, announced that it had reached an agreement with holders of \$13 million worth of debt to exchange that debt for company shares. Rather than worry about repaying the debt, the company was able to trade it for equity and then pursue acquisition and distribution deals. Roger Dudley, the company's president and CEO, called the move "a key component to positioning Fonix for future growth" and "a vote of confidence from our debt holders" regarding the company's plans to acquire software developer G-Soft and distribute its speech-related technologies on mobile devices like the Apple iPhone.

Caution: Restructuring can take time and can also result in charges to the balance sheet, especially if debt is retired outright (in advance of new debt at better terms). Also, with terms of loans and other costs in play, companies may miss out on strategic opportunities while negotiating with other parties. Creditors may not cooperate. And, in a bankruptcy situation, multiple constituencies may bicker over or contest the restructuring plan.